

Financial Statements of

**SASKATCHEWAN VALLEY
POTATO CORPORATION**

For the period from incorporation on May 11, 2000

to

December 31, 2000



101-04103/

KPMG LLP
Chartered Accountants

2000 - 1881 Scarth Street
Regina SK S4P 4K9

Telephone (306) 791-1200
Telefax (306) 757-4703
www.kpmg.ca

AUDITORS' REPORT

To: The Shareholder

We have audited the balance sheet of Saskatchewan Valley Potato Corporation as at December 31, 2000 and the statements of operations and deficit and cash flows for the period from incorporation on May 11, 2000 to December 31, 2000. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Saskatchewan Valley Potato Corporation as at December 31, 2000 and the results of its operations and its cash flows for the period from incorporation on May 11, 2000 to December 31, 2000 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 9, 2001



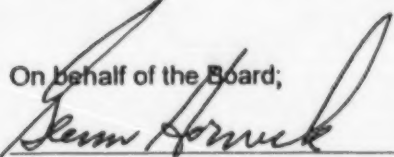
Saskatchewan Valley Potato Corporation
Balance Sheet

December 31, 2000

	Dec. 31, 2000
Assets	
Current assets:	
Cash	\$ 142,948
Accounts receivable	775,986
Inventories (note 3)	1,410,008
Prepaid expenses	44,019
	<u>2,372,961</u>
Capital assets (note 4)	19,585,789
Total assets	\$ 21,958,750
Liabilities and Shareholders' Equity	
Current liabilities:	
Advance from C!C III (note 5)	\$ 647,196
Accounts payable and accrued liabilities	459,661
Deferred revenue	11,500
Current portion of long-term debt (note 6)	181,396
	<u>1,299,753</u>
Long-term debt (note 6)	5,243,321
Shareholders' equity:	
Share capital (note 7)	16,590,499
Deficit:	
Loss from operations	(505,542)
Related party transaction adjustment (note 8a)	→ (669,281)
	<u>15,415,676</u>
Commitments and contingencies (note 10)	
Total liabilities and shareholders' equity	\$ 21,958,750

See accompanying notes to financial statements.

On behalf of the Board;



Director



Director

Saskatchewan Valley Potato Corporation
Statement of Operations

For the period from incorporation on May 11, 2000 to December 31, 2000

	2000
Sales	\$ 478,011
Less: cost of sales	146,537
Gross margin	331,474
Operating expenses:	
Salaries & benefits	310,041
Administration	166,151
Interest – long-term	174,400
– short-term	6,624
	657,216
Loss before the under-noted	(325,742)
Other income (expense):	
Interest and other income	61,287
Start-up	(42,468)
Amortization	(198,619)
	(179,800)
Net loss	\$ (505,542)

See accompanying notes to financial statements.

Saskatchewan Valley Potato Corporation
Statement of Deficit

For the period from incorporation on May 11, 2000 to December 31, 2000

	2000
Retained earnings, beginning of period	\$ -
Related party transaction adjustment (note 8a)	(669,281)
Net loss from operations	(505,542)
Deficit, end of period	\$ (1,174,823)

See accompanying notes to financial statements.

Saskatchewan Valley Potato Corporation
Statement of Cash Flows

For the period from incorporation on May 11, 2000 to December 31, 2000

	2000
Operations:	
Net loss	\$ (505,542)
Items not involving cash:	
Amortization	198,619
Change in non-cash operating working capital:	
Accounts receivable	794,874
Inventories	(805,762)
Prepaid expenses	(29,711)
Accounts payable and accrued liabilities	64,747
Deferred revenue	7,500
	(275,275)
Financing:	
Advance from CIC III	647,196
Repayment of long-term debt	(86,571)
	560,625
Investments:	
Purchase of capital assets	(142,402)
Increase in cash	142,948
Cash, beginning of period	-
Cash, end of period	\$ 142,948

See accompanying notes to financial statements.

Saskatchewan Valley Potato Corporation
Notes to Financial Statements

For the period from incorporation on May 11, 2000 to December 31, 2000

1. Incorporation and nature of business:

Saskatchewan Valley Potato Corporation ("SVPC") was incorporated on May 11, 2000 under the *Business Corporations Act of Saskatchewan*. SVPC is a wholly-owned subsidiary of CIC Industrial Interests Inc. ("CIC III"). CIC III is a wholly-owned subsidiary of the Crown Investments Corporation of Saskatchewan ("CIC"), a Saskatchewan crown corporation. SVPC is not subject to Federal or provincial income taxes by virtue of this ownership. SVPC's accounts are included in the consolidated financial statements of CIC.

SVPC commenced active operations on June 28, 2000 when it acquired certain assets and liabilities from a related party (see note 8a).

SVPC is primarily a seed potato production and storage agricultural company. SVPC engages in crop share production as well as its own production. Storage space is provided to crop share growers as well as third party growers at any of its four locations – Broderick, Lucky Lake, Riverhurst, and Tullis.

Complementing its production and storage services, SVPC also provides a full line of handling, marketing and agronomic services to seed potato growers in the Lake Diefenbaker potato area.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Revenue recognition:

Seed potato sales are recognized when potatoes are shipped. Storage, handling and agronomic services revenue is recognized as the services are provided.

(c) Inventories:

SVPC seed potatoes in storage are valued at the lower of cost and net realizable value. Cost is defined as all field costs, handling costs and storage costs incurred prior to December 31 of the production year. Net realizable value is determined based on either contract value or the Saskatchewan Seed Potato Growers Price List, adjusted for shrinkage.

Parts and chemical supplies inventory are valued at cost.

Saskatchewan Valley Potato Corporation
Notes to Financial Statements

For the period from incorporation on May 11, 2000 to December 31, 2000

(d) Capital assets:

Capital assets are initially recorded at cost. Expenditures for betterments, such as major refurbishment and structural repairs, are capitalized. Normal maintenance and repair expenditures are expensed as incurred.

Amortization is provided from the date assets are put into service and is recorded on the straight-line basis at rates designed to amortize the cost of the capital assets over their estimated useful lives after considering salvage values.

Estimated useful lives are as follows:

Capital Asset	Term
Storage sheds	40 years
Handling equipment	15 years
Dedicated equipment	15 years
Transport equipment	15 years
Field equipment	5-10 years
Plant and office equipment	2-5 years

(e) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. Inventories:

	Dec. 31, 2000
Seed produced	\$ 1,359,987
Seed purchased	21,600
Equipment parts	2,234
Chemicals/supplies	26,187
	\$ 1,410,008

Saskatchewan Valley Potato Corporation
Notes to Financial Statements

For the period from incorporation on May 11, 2000 to December 31, 2000

4. Capital assets:

			Dec. 31, 2000
	Original Cost	Accumulated Amortization	Net Book Value
Storage sheds	\$ 18,693,712	\$ 863,426	17,830,286
Handling equipment	1,585,668	540,439	1,045,229
Dedicated equipment	456,595	158,908	297,687
Transport equipment	380,843	123,215	257,628
Field equipment	129,676	16,322	113,354
Plant and office equipment	49,570	7,965	41,605
	\$ 21,296,064	\$ 1,710,275	\$19,585,789

5. Advance from CIC III:

SVPC entered into a credit facility with its shareholder, CIC III, whereby SVPC has access to an operating line of credit of \$2,000,000. The principal on the loan is payable on demand while interest is paid monthly at Bank of Montreal prime rate less $\frac{3}{4}$ of one per cent.

6. Long-term debt:

Mortgage balance, Dec. 31, 2000	\$ 5,424,717
Less: current portion of long-term debt	(181,396)
Long Term Debt	\$ 5,243,321

Year payable	Interest rate	Principal Payment
2001	6.21 %	\$ 181,396
2002	6.21 %	192,987
2003	6.21 %	5,050,334

Long-term debt consists of two mortgages due to the Canadian Imperial Bank of Commerce. The mortgages are up for renewal in March, 2003. The mortgages are secured by a first charge on two storage sheds, a general security agreement and a guarantee by CIC III.

Saskatchewan Valley Potato Corporation
Notes to Financial Statements

For the period from incorporation on May 11, 2000 to December 31, 2000

7. Share capital:

	2000
Authorized:	
Unlimited number of Class A voting common shares	
Issued during the period:	
100 Class A shares	\$ 16,590,499
	<u>\$ 16,590,499</u>

The 100 Class A common shares were issued pursuant to the acquisition of certain assets and liabilities as described in note 8a.

8. Related party transactions:

a. Related party transaction adjustment

SVPC purchased certain assets and liabilities (the "purchased assets") of a potato production and storage business previously owned by the Saskatchewan Water Corporation ("SWC") under two separate agreements dated June 30, 2000 and December 28, 2000. Under the first agreement, a portion of the purchased assets was acquired from SWC by CIC who then nominated SVPC to receive the purchased assets by way of a direct conveyance from SWC. SVPC issued 100 Class A common shares to CIC III as consideration for the purchased assets. Under the second agreement, SWC transferred title to the balance of the purchased assets directly to SVPC. SVPC assumed indebtedness of \$5,511,288 of SWC as consideration for the purchase.

SWC and SVPC are subject to common control, resulting in a non-arms length transaction. Accordingly, the difference between the carrying value of the assets and liabilities acquired and the purchase price has been recorded as a charge to retained earnings.

Saskatchewan Valley Potato Corporation
Notes to Financial Statements

For the period from incorporation on May 11, 2000 to December 31, 2000

Details of the related party transaction are as follows:

Amounts acquired	June 30	December 28	Total
Current assets	\$1,916,800	\$ 272,615	\$ 2,189,415
Capital assets	14,595,505	5,046,501	19,642,006
Current liabilities	(398,915)	-	(398,915)
	16,113,390	5,319,116	21,432,506
Consideration paid			
Issuance of common shares	16,590,499	-	16,590,499
Indebtedness assumed	-	5,511,288	5,511,288
	16,590,499	5,511,288	22,101,787
Related party transaction adjustment	\$ 477,109	\$ 192,172	\$ 669,281

b. Other related party transactions:

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to SVPC by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions with related parties, which are not separately disclosed elsewhere in the financial statements, are as follows:

	2000
Accounts receivable	\$ 900
Accounts payable	18,536
Cost of sales	56,985
Administration	42,829
Interest	6,044

In addition, SVPC pays Saskatchewan Education and Health Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statement and the notes thereto.

Saskatchewan Valley Potato Corporation
Notes to Financial Statements

For the period from incorporation on May 11, 2000 to December 31, 2000

9. Financial instruments:

SVPC's recognized financial instruments consist of cash, accounts receivable, an advance from CIC III, accounts payable and accrued liabilities and long-term debt.

Credit Risk. SVPC is exposed to credit risk from the potential default of customers. SVPC mitigates this risk through offset provisions contained in storage and handling services agreements and sales contracts.

Fair values. The fair value of cash, accounts receivable, advance from CIC III and accounts payable and accrued liabilities approximates the carrying amount due to the short period to maturity.

	Carrying Value	Fair Value
Long-term debt	\$ 5,424,717	\$ 4,970,000

The fair value of long-term debt is based on the present value of future cash flows discounted at the December 31 borrowing rate for similar borrowing arrangements.

10. Commitments and contingencies:

SVPC is committed under the terms of office rental agreements, with the following minimum annual payments over the next three years:

Year	Amount
2001	\$ 25,566
2002	14,400
2003	8,400

In 2000, SVPC received requests for grants in lieu of property taxes for each storage site based on varying business classifications. SVPC provided grants in lieu to each of the municipalities in 2000 based on the business classification assigned when the property was owned by SWC.

In the event that SVPC's tax status changes in the future, any additional grants or taxes paid retroactive to 2000 will be expensed at that time.